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SIPDIS

SENSITIVE BUT UNCLASSIFIED--HANDLE ACCORDINGLY, SIPDIS

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SUBJECT: ECONOMIC PERSPECTIVES: CBN NEW MONETARY POLICY

¶1. (SBU) Economic analysts see the Central Bank of Nigeria's (CBN) new economic policy, including redenomination of the naira, as a cosmetic makeover offering few economic improvements. One analyst thought the new policy could succeed if it were harmonized with macroeconomic policy objectives. End summary.

-----Rede nomination Desirable;  
But Unnecessary  
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¶2. (SBU) Ayo Teriba, CEO, Economic Associates, commented that since Nigeria was not experiencing hyperinflation, there was no need to re-denominate the naira, particularly given its recent stability against the U.S. dollar (USD). He said the naira is convertible contrary to the Central Bank Governor's statement (Reftel) and redenomination would not be the best way to achieve a desired exchange rate level. He further argued that removing two zeros would not affect the naira exchange rate to the USD as the value would remain the same.

¶3. (SBU) Teriba said the new policy is a continuation of the previous Administration's agenda and the Central Bank's lack of consultation before announcing the new policy smacks of arrogance. The Central Bank of Nigeria (CBN) only has operational autonomy and not strategic independence, he averred, and thought "the Governor is taking the CBN autonomy too far."

¶4. (SBU) Biodun Adedipe, a former World Bank consultant, faulted the CBN Governor's desire to return to the 1985 exchange rate. Exchange rate stability is more important than the actual rate, he posited. However, he lauded the current account liberalization policy starting January 1, 2009 because he thought it would increase foreign investors' confidence in the economy.

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Cosmetic CBN Changes Not Tied to Policy  
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¶5. (SBU) Bismarck Rewane, Managing Director of Financial Derivatives, called the redenomination "cosmetic" because it was not linked to policy or administrative changes. He commented that the CBN's new monetary policy would not only be expensive (reprinting naira notes) but that it would also entail administrative consequences arising from trying to add U.S. dollars to the banking system (Reftel). He called the proposed liberalization of the Current Account "cosmetic" and warned it could make the system "more opaque." He criticized the new monetary policy as not being tied to broad macroeconomic policy objectives such as accelerating economic growth, achieving sustainable and competitive domestic growth, or diversifying the economy away from oil dependency. However, Rewane thought "it is possible" that the new monetary policy could be harmonized with macroeconomic policies and improve the economy.

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